

Testimony of the
U.S. Public Interest Research Group
and the
Student Public Interest Research Groups

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**Hearing On
College Students and Credit Cards**

**Before the Subcommittee
On Financial Institutions and Consumer Credit
Of the Financial Services Committee,
U.S. House of Representatives
Honorable Carolyn Maloney, Chair**

June 26, 2008

Chair Maloney, ranking member Biggert, members of the committee:

Thank you for the opportunity to offer U.S. PIRG's and the Student PIRG's views on college students and credit cards. We commend you for having this timely hearing. I am Chris Lindstrom, Higher Education Project Director at U.S. PIRG and the affiliated Student PIRGs. As you know, U.S. PIRG serves as the federation of and national lobbying office for state Public Interest Research Groups. PIRGs are non-profit, non-partisan public interest advocacy organizations with offices around the country. We take on powerful interests on behalf of our members and other consumers. The Student PIRGs work on college campuses to promote the public interest agenda in combination with a robust civic training program for students.

(1) SUMMARY:

As you know, Madame Chair, U.S. PIRG supports your bill HR 5244, the Credit Cardholders Bill of Rights, as a good, measured first step and strong step forward to reforming the credit card industry.

We also support amendments to the legislation to protect student consumers from unfair credit card marketing and excessive credit card debt, since our research has documented that students are targeted, indeed, bombarded by credit card company solicitations, in the mail, on the phone and while they are walking across campus.

Further, our Higher Education Project has documented that excessive, high-cost credit card debt has exacerbated the crisis students already face from the rising costs of education. Our project has focused on several areas where education costs are skyrocketing. As states have cut college budgets, students are increasingly burdened with educational debt. In addition, textbook costs as well as other ancillary costs continue to increase, causing students to become reliant on their newly acquired lines of credit to offset those costs.

It is our view that students, like other adults, should receive the credit that they qualify for, and not be granted special "automatic qualification" for a credit card solely because of their student status. We also believe that colleges and universities should adopt principles on the marketing of credit cards on campus. These include the following, among others: Only cards with fair terms should be marketed on campus; On-campus "tabling" days should be limited; Credit card companies should be prohibiting from offering free gifts in return for students filling out credit card applications; schools should not enter into agreements where student names are shared or sold, directly or indirectly, with credit card companies; student groups and universities should not receive compensation from credit card companies for marketing to students.

In this testimony, we also elaborate on the findings of our recent report, the Campus Credit Trap, based on a survey of over 1,500 students nationwide between October 2007 and January 2008. The 2008 PIRG study of campus credit card marketing found that students support a variety of reforms: We asked students their views on whether colleges and universities should regulate the practices of credit card companies on campus. The results show that students overwhelmingly support stricter regulation of campus credit card marketing. Four out of five (80%) students supported adoption of strong campus credit card marketing principles. Only 1 in 5 students replied yes to the proposition that students could handle credit card marketing without regulation. Some of these also supported some of the reform principles anyway. Of those who supported one or more strong principles, nearly three-in-

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four students (74%) asserted that only cards with fair terms and conditions should be marketed on campus. Students also overwhelmingly (67%) opposed the sale or sharing of student lists (which can include home and dorm addresses, email addresses and land line and cell phone numbers) with credit card companies.

(2) WHY COLLEGE STUDENTS ARE CRITICAL TO THE INDUSTRY'S PROFITABILITY STRATEGY

Credit card lending is consistently the most profitable form of lending, according to the Federal Reserve's most recent report to Congress in 2007:

Although profitability for the large credit card banks has risen and fallen over the years, credit card earnings have been consistently higher than returns on all commercial bank activities. For example, for all commercial banks, the average return on all assets, before taxes and extraordinary items, was 2.01 percent in 2006, well below the returns on credit card activities in that year.¹

In recent years, those profits have been augmented by rapid increases in fee income.

Yet, there is tremendous pressure from headquarters for their credit card divisions to increase profitability even higher. The companies can do this in three main ways.

First, the companies can squeeze existing customers with punitive interest rates and unfair fees and tricks and traps designed to increase spending. In response to some of the worst excesses of the industry, the Federal Reserve Board and two other regulators with authority to enforce the Federal Trade Commission Act have proposed new regulations similar to provisions in your bill, HR 5244, that ban the industry's worst practices, such as imposing retroactive interest rate increases after a consumer is one day late or has paid an unrelated bill late (universal default) as unfair and deceptive. For regulators, these are astonishing proposals that go well beyond previous modest disclosure requirements and confirm that the industry's practices are out-of-control.² The industry also uses a variety of "rewards," "skip-a-month" plans and distribution of "convenience checks" (that act as cash advances) as ways to increase spending on existing cards.

Second, the industry aggressively seeks to get customers of other credit companies to switch to their cards, with zero-percent balance transfer offers and other teaser rates. "An industry source indicates that in 2004, 71 percent of US households received an average of 5.7 offers per month, or 58 offers/year.³ During 2004, US households received an estimated 5.23 billion credit card offers, up 22% compared to 2003 and exceeding the previous record of 5.01 billion offers set in 2001.⁴" While some recent reports indicate these offers may be down due to the economic slump, it is likely that this is temporary and banks will restructure the offers and start making them again. Remember that offers are made both to people with positive credit attributes and to people with negative attributes. The offers are simply different.

Finally, the industry seeks completely new customers. In addition to immigrant populations that have traditionally not used credit cards, college students are the key target. They are young and understand that they need credit to get ahead in the world. Some need credit because of the rising cost of a college education. Finally, most of them are clumped together on campuses that they

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either commute to or live at. This makes them easy to target. Companies use a variety of techniques, from buying lists from schools and entering into exclusive marketing arrangements with schools to marketing directly to students through the mail, over the phone, on bulletin boards and through aggressive on-campus and “near-campus” tabling-- facilitated by “free gifts.”

College students, under regular credit criteria, would not be able to get a card because they have no credit history and little or no income. But the market for young people is valuable, as industry research shows that young consumers remain loyal to their first cards as they grow older. However, the overall debt burden facing students as a result of their education continues to grow. Now, credit card marketing, coupled with students’ lack of financial experience or education, leads many students into serious debt.

As states have pulled back on funding for higher education more of the cost of college has fallen on the shoulders of students. Two-thirds of college students graduate with loan debt, averaging nearly \$20,000. According to a PIRG study, the Burden of Borrowing, credit card debt exacerbates skyrocketing student loan debts. That 2002 study found that student borrowers were student borrowers were even more likely to carry credit card debt, with 48% of borrowers carrying an average credit card balance of \$3,176.⁵ Another PIRG study, Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Career Opportunities⁶, from April 2006, found that more than 23 percent of all four year public and 38% of private college graduates have too much debt to manage as a starting teacher.

While some of the reforms we discuss below from our report the Campus Credit Card Trap may more appropriately be considered on campus, this committee should consider amendments to restrict marketing to youth in the following ways:

Ban giving credit cards to young people who cannot demonstrate an ability to re-pay. Bank witnesses and spokespeople have largely admitted that even though young applicants do not have adequate credit reports to qualify for cards, their mere “status as students” is an adequate criterion for approving a card. This is unacceptable. Banks should underwrite credit cards for students and young people, just as they do for all other applicants. It may be appropriate to substitute completion of an approved, legitimate financial literacy class as an alternate criterion. It may also be appropriate to restrict the credit card limits and maximum number of cards available to young people. A variety of bills make proposals in this area and we would be happy to work with the committee and student groups on the best amendment.

Ban Marketing Cards To Young Consumers Unless They Opt-In To Receive Solicitations. A broad credit card reform proposal, S 2753, the Credit Card Reform Act, by Senator Robert Menendez includes this laudable provision. In the 2008 PIRG study, 8 of 10 students reported receiving mailed offers from credit card companies.

(3) RESULTS OF OUR SURVEY: THE CAMPUS CREDIT CARD TRAP

The Campus Credit Trap report, available at our website truthaboutcredit.org⁷ is based on an in-person survey of a diverse sample of over 1,500 students, primarily single undergraduates, at 40 large and small schools and universities in 14 states around the country conducted between October 2007 and February 2008. It analyzes how students pay for their education, how many use

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and how they use credit cards and, as an important goal of the survey, their attitudes toward credit card marketing on campus and whether or not they support principles to rein in credit card marketing on campus.

The findings confirm that students are using credit cards in significant numbers and that a significant number are paying the price through late fees, high balances and delinquencies. The findings also show that banks are marketing aggressively to students through a variety of channels. Finally, the findings demonstrate that an overwhelmingly majority of students support limits on credit card marketing on campus to rein in unfair bank practices.

Students Support Campus Marketing Principles

We asked students their views on whether colleges and universities should regulate the practices of credit card companies on campus. The results show that students overwhelmingly support stricter regulation of campus credit card marketing. As Table 1 shows, four out of five (80%) students supported adoption of strong campus credit card marketing principles. Only 1 in 5 students replied yes to the proposition that students could handle credit card marketing without regulation. Some of these also supported some of the reform principles anyway.

Of those who supported one or more strong principles, nearly three-in-four students (74%) asserted that only cards with fair terms and conditions should be marketed on campus. Students also overwhelmingly (67%) opposed the sale or sharing of student lists (which can include home and dorm addresses, email addresses and land line and cell phone numbers) with credit card companies.

Students Describe Campus Marketing Tactics

On-Campus and Near-Campus Tables: Three of four students (76%) reported stopping at tables to consider offers or apply for credit cards. The best way to get students to stop at tables appears to be to offer a “free gift,” of either nominal or real value. Of course, the catch is that the free gift is conditioned on completing a credit card application. As we note in Table 2, there are a wide variety of free gifts being offered. While some are of nominal value, the high level of responses in the “Other” category for pizza or “Subway sub” sandwiches or “free food” suggest that credit card companies and their subcontractors are taking advantage of students’ chronic cash shortages to attract them to tables with offers of the instant gratification of free food, then getting them to sign up for cards that ironically may contribute to later cash problems.

At the same time as many gifts are low-cost or of nominal value, including cheap t-shirts, Frisbees and desk toys as well free lunch coupons, respondents noted a wide variety of gift values. Some firms are offering gifts of substantial value, including pre-loaded gift cards worth \$10-\$25, or in one case, an iPod shuffle (worth approximately \$49 retail according to Internet sites).

Mail and Phone Marketing: Fully 80% of respondents said they received mail from card companies. Students reported receiving an average of nearly five (4.8) mailed solicitations per month. However, a number of students simply reported “hundreds.” In addition, 22% of students reported receiving an average of nearly four (3.6) phone calls per month from credit card companies.

How Students Pay for Education

Fully 61% of students relied on parents for some or all of their educational costs. The next most common sources of income reported were scholarships (40%), student loans (38%), summer jobs (32%) and part-time jobs (29%).

How Students Report They Use Cards

Nearly two-out-of-three (66%) students reporting having at least one credit card. Thirty percent (30%) reported that for their primary card, they were either a co-signer or their parents paid the bill. Of remaining students paying their own bills, just over half of the remainder reporting (36% of the total) stated that they paid their own primary card bills in full each month. The other half of students paying their own bills, (34% of the total) stated that they carried a balance on their primary card.

When asked how they used their cards, a question for which multiple entries were allowed, more than half (55%) reported that they used them for “day-to-day-expenses. The same number (55%) reported using them for books. The next highest categories reported were “weekends and pizza” and “emergencies” but very few consumers limited their response to “emergencies.”

In an important finding, nearly one-quarter (24%) reported that they had used their cards to pay for college tuition.

How Students Report Credit Card Debt and Credit Card Late Fees and Delinquency

Seniors (\$2,623) responsible for their own cards who reported carrying credit card debt had more than double the debt reported by freshmen (\$1,301).

Defaults: In addition, students (Seniors, \$4,116; Freshmen, \$2,450) responsible for their own cards who reported that they had previously defaulted on a credit card had much higher credit card balances than those who had not had a previous default.

One in four respondents (25%) reported they had paid at least one late fee and 15% reported they had paid at least one over-the-limit fee. Over 6% of respondents reported that at least one card had been cancelled for non-payment. Nearly one in five (19%) had cancelled a card themselves in good standing. (These figures include all students, including those whose parents now pay for their primary cards or who claim to carry no balances on their primary cards.)

(4) U.S. PIRG’S CAMPUS CREDIT CARD MARKETING PRINCIPLES

The results of the survey support the recommendations of the truthaboutcredit.org campaign launched by U.S. PIRG Education Fund to get colleges to adopt fair campus credit card marketing principles. These principles are the following:

1. Prohibit use of gifts in marketing on campus.

Credit card banks, issuers, and vendors shall be prohibited from offering anything of value, including food, clothing, sports equipment, travel vouchers, coupons, or equivalents, for purposes of soliciting an application for a credit card on campus. In addition, credit card banks, issuers and vendors are prohibited from offering financial support or other goods and services to any campus employee or campus department in exchange for marketing privileges.

2. Control passive marketing techniques.

Posters and flyers shall comply with college posting regulations. Credit card banks, issuers and vendors shall be prohibited from leaving their marketing materials posted or displayed for longer than the posting regulations that govern the campus.

3. Block acquisition of student lists.

Purchase (or sharing as a condition of exclusive marketing arrangements) of student lists shall be prohibited on campus. Credit card banks, issuers and vendors are prohibited from purchasing or otherwise acquiring lists of students of any kind currently enrolled at the campus. If state law on public records is subject to interpretation on whether detailed student information is a public record, schools should interpret it in favor of privacy. If state law makes student lists public records subject to full disclosure, then policymakers should consider changes. The purpose of open government laws is so that citizens can evaluate the effectiveness of their government, not so that students can be targeted by credit card companies. At a minimum, as an interim step, universities should only sell lists after students have opted-in to agree to have their names shared.

4. Stop group sponsorship. Student group or departmental sponsorship shall be prohibited. Credit card banks, issuers and vendors are prohibited from negotiating deals with student groups and other campus departments such that the student group or department will receive financial support or any other goods and services for applications collected on behalf of a credit card company.

5. Increase financial education. Financial education shall be enhanced on campus. Colleges and universities shall increase resources to support training and educational programs that increase students' consumer awareness and ability to navigate issues of student debt responsibly.

6. Credit card contractual terms and conditions that take advantage of students as consumers shall be discouraged.

Colleges and universities should discourage specific credit card terms that take advantage of the consumer. Such practices include universal default – where a company will increase a consumer's interest rate based on her payment record on another account not associated with the card; hidden fees – where a company does not disclose certain fees for paying by phone or ordering a copy of a bill; mandatory arbitration – where the consumer gives up the right to legal action against the company; changing contracts – where the company reserves the right to change all terms on the credit card at any time for any reason; and penalty interest rates above 20% that stay in place indefinitely.

(7) CONCLUSION

We thank you for holding this important oversight hearing on college students and credit cards. We look forward to working with committee members to incorporate provisions into HR 5244, the Credit Cardholders Bill of Rights, to directly address marketing to college students.

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ENDNOTES

¹ Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions Submitted to the Congress pursuant to section 8 of the Fair Credit and Charge Card Disclosure Act of 1988 July 2007, available at <http://www.federalreserve.gov/boarddocs/rptcongress/creditcard/2007/default.htm>, last visited 16 April 2007.

² Press release, 2 May 2008, Federal Reserve Board, available at <http://www.federalreserve.gov/newsevents/press/bcreg/20080502a.htm> (last visited 2 June 2008).

³ Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions Submitted to the Congress pursuant to section 8 of the Fair Credit and Charge Card Disclosure Act of 1988 July 2007, available at <http://www.federalreserve.gov/boarddocs/rptcongress/creditcard/2007/default.htm>, last visited 16 April 2007.

⁴ According to Mail Monitor, the direct mail tracking service from Synovate.

⁵ See “The Burden of Borrowing,” the State PIRGs’ Higher Education Project, March 2002, available at <http://www.pirg.org/highered/highered.asp?id2=7972>

⁶ See Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Career Opportunities, U.S. PIRG Higher Education Project, 1 April 2006, available at <http://www.uspirg.org/home/reports/report-archives/affordable-higher-education/affordable-higher-education-reports/paying-back-not-giving-back--student-debts-negative-impact-on-public-service-career-opportunities> (last visited 25 June 2008).

⁷ “The Campus Credit Card Trap: A Survey of College Students and Credit Card Marketing,” Edmund Mierzwinski, Consumer Program Director, with Christine Lindstrom, Higher Education Project Director, The U.S. Public Interest Research Group Education Fund, March 2008, available at <http://www.truthaboutcredit.org> (last visited 22 June 2008).